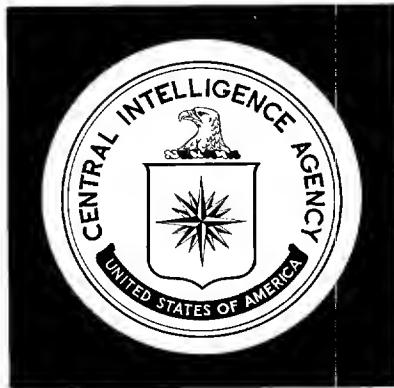
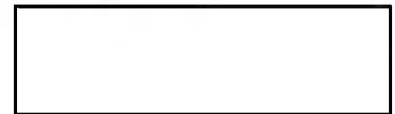


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CONTENTS

LAOS: Pressure on Long Tieng defenses continues but no large-scale ground attack has occurred. (Page 1)

INDOCHINA: Hanoi schedules Indochina "summit" to coincide with President Nixon's trip to China. (Page 2)

25X1

LEBANON-FEDAYEEN: New strains in government's relations with commandos. (Page 3)

UK: International monetary reserves at all-time high. (Page 4)

ITALY: Parliament will debate government reform program. (Page 5)

COSTA RICA - GUATEMALA: Figueres may protest coup plotting in OAS. (Page 6)

USSR-MEDITERRANEAN: Helicopter carrier (Page 7)

BELGIUM: Eyskens tries to form cabinet (Page 7)

CANADA: International reserves reach all-time high (Page 8)

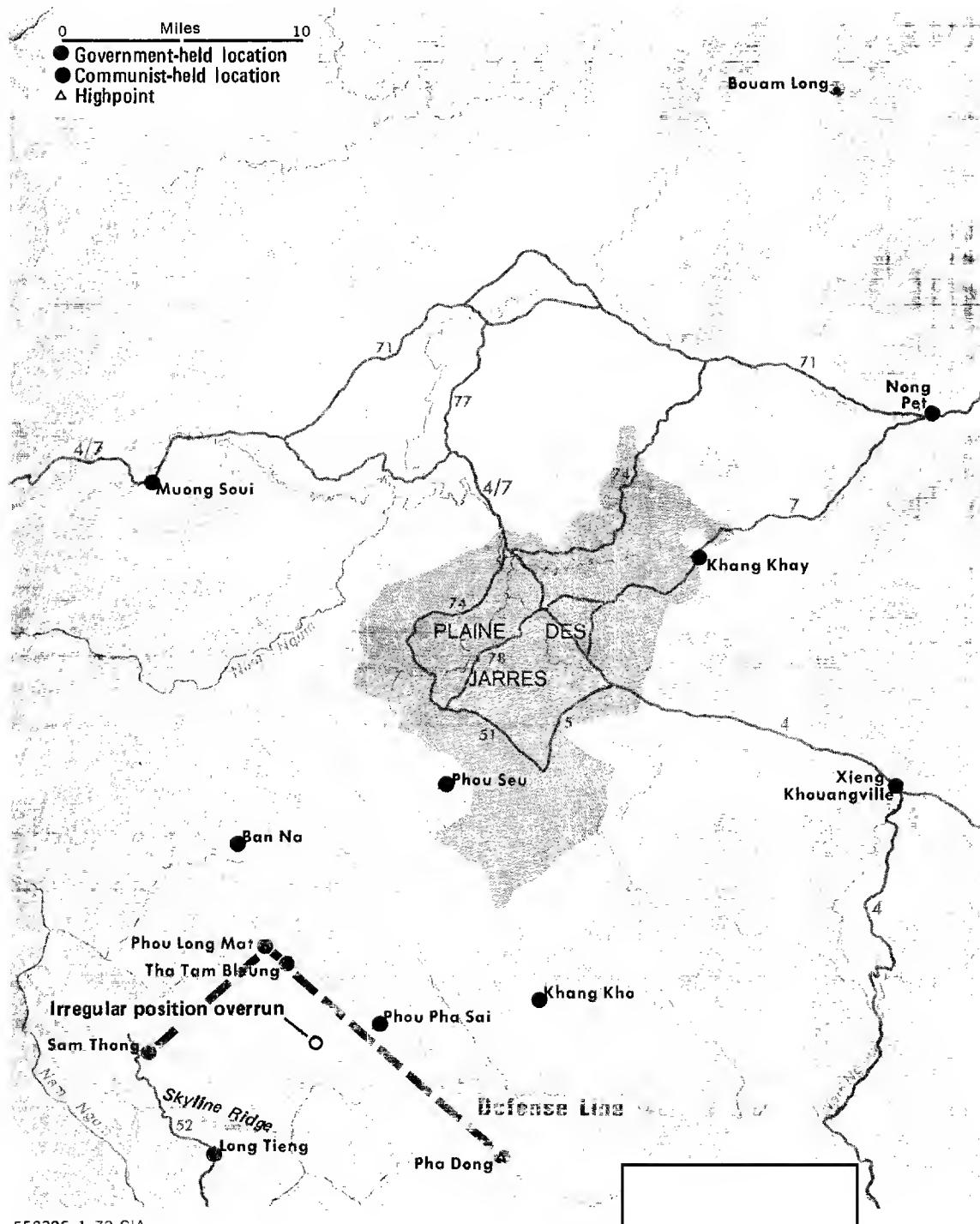
GOLD: Free market prices (Page 8)

HONDURAS: Tax claims against US-owned companies (Page 9)

BURUNDI-CHINA: Trade agreement (Page 9)

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LAOS: PLAINE DES JARRES AREA



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C LAOS: The North Vietnamese are keeping up the pressure on Long Tieng and its outlying defenses, but no large-scale ground attack has occurred.

Another 130-mm. field gun barrage hit Skyline Ridge overlooking Long Tieng on the night of 5-6 January. As on the previous night, little damage was reported, but the enemy clearly is attempting to zero in on irregular positions along the ridge. On 5 January the North Vietnamese overran one of the high points between Long Tieng and Tha Tam Bleung following a company-sized assault that killed eight irregulars.

Irregular units on Phou Long Mat reported a shelling by what they believe was a T-34 tank. Photography indicates that the North Vietnamese used at least one T-34 tank in their offensive on the Plaine des Jarres, the first time this tank had been used in north Laos. The rough terrain around Long Tieng would severely limit the tank's maneuverability, however, and it will be difficult for the North Vietnamese to move tanks into front line areas.

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INDOCHINA: Hanoi apparently has scheduled an Indochina "summit" conference to coincide with President Nixon's trip to Peking.

Former Cambodian head of state Sihanouk recently told reporters in Peking that he would travel to Hanoi in February to confer with Premier Pham Van Dong, Laotian Prince Souphanouvong, and leaders of the National Liberation Front from South Vietnam.

In April 1970, in the wake of Sihanouk's overthrow, representatives of the various Indochinese organizations met in southern China for what they described as an Indochina "summit." Indochinese solidarity has been a persistent theme in Hanoi's propaganda ever since. More recently, Vietnamese Communist pronouncements have been emphasizing that the three revolutionary movements in Indochina have the same goals.

In addition to trying to upstage the President's trip, the Vietnamese Communists are looking for ways to focus attention on the extent of the US involvement in Laos and Cambodia as well as South Vietnam. Moreover [redacted]

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[redacted] Hanoi hopes to convince the US that it faces heightened military pressure throughout Indochina unless it accedes to Communist demands on Vietnam, and it probably regards the "summit" as yet another useful sounding board for this line. [redacted]

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LEBANON-FEDAYEEN: Relations between the Lebanese Government and the fedayeen appear to be entering a new, more troubled stage.

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[redacted] the government late last month informed fedayeen leaders of its concern over reports of large-scale reinforcements of fedayeen forces in southern Lebanon in violation of existing agreements. Fedayeen leaders denied the reports but [redacted] they admitted that men from the Palestine Liberation Army and Libyan volunteers have moved into Lebanon from Syria. [redacted]

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Lebanon's problem results in part from the situation in Syria where increasingly restrictive measures have been imposed on the commando forces. Apparently fearful of further crackdowns by the Syrians, large numbers of fedayeen moved into southern Lebanon.

Over the past year Lebanon has been tightening its own controls on the fedayeen. Acting on orders from President Franjiyah, the Lebanese Army has told the fedayeen to clear all planned anti-Israeli operations with local army commanders, required all commandos to carry identity cards issued by the Palestine Liberation Organization, and established army observation posts in the area. The fedayeen, anxious to avoid providing the army with a pretext to move against them, have generally complied with these restrictions.

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UK: Britain's international monetary reserves, which now total \$6.58 billion, are at an all-time high.

Reserves increased by \$1 billion in December despite Libya's withdrawal of at least \$250 million. Much of the growth resulted from a continued short-term inflow of dollars up to the currency realignment on 19 December. The Bank of England gained the dollars by intervening in the foreign exchange market. About \$120 million, however, resulted from revaluation of holdings of gold and special drawing rights to reflect the new de facto dollar-gold parity of \$38.00 per ounce. This would not increase the value of British reserves calculated in pounds sterling.

UK reserves have increased for 15 consecutive months, but the growth was particularly sharp during the period of monetary uncertainty that began in August and ended with the recent Smithsonian agreement. Reserves in December were 70 percent higher than the level in July, as speculators and others converted dollar balances into sterling. [redacted]

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ITALY: Prime Minister Colombo plans to ask for a full debate on the government's continuation in office and its program at the reopening of parliament on 18 January.

Colombo's move is necessitated by the small Republican Party's decision to withdraw its parliamentary support of the government because of dissatisfaction with the government's program.

The debate will undoubtedly focus on the center-left program for social and economic reforms and for their financing. Over the past two years, leaders of organized labor have successfully put pressure on the government to speed up its reform program, but economic conditions are now fostering a political inclination for delay. The long-pending decentralization to regional government, scheduled to go into effect on 1 April, may also provoke controversy.

Another key problem is a referendum to be held between 15 April and 15 June on Italy's first divorce law, passed late in 1970. Except for the small neo-fascist party, none of the political parties and leaders is in favor of the referendum, which could create new national divisions. So far, however, the political leaders have been unable to devise a way to side-track the measure.

The debate is expected to conclude with re-confirmation of a three-party coalition of Christians Democrats, Socialists, and Social Democrats or with the Republicans re-entering the coalition. There is also the possibility, however, of a full-fledged government crisis. [redacted]

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COSTA RICA - GUATEMALA: President Figueres may protest to the OAS over coup plotting against him by extreme right-wing Guatemalan elements and a like-minded group in Costa Rica.

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[redacted] Members of the Free Costa Rica Movement, an anti-Communist businessmen's group, are highly disturbed over the establishment of a Soviet Embassy in Costa Rica and have been waging a bitter anti-Figueres campaign. Several of the group's extreme hard-liners are reportedly seeking aid from Guatemalan rightists for a coup attempt. Some Guatemalan leaders probably are aware of this and may be backing these rightists.

The Costa Rican extremists are perennial coup plotters whose efforts in the past have never gone beyond the planning stage. Figueres probably would not hesitate to go to the OAS if he thought the Guatemalan involvement seriously threatened the stability of his government. [redacted]

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NOTES

USSR-MEDITERRANEAN: The Soviets again have deployed one of their two helicopter carriers [redacted] to the Mediterranean. The Leningrad, escorted by two Kashin-class destroyers, [redacted]

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will probably go to one of the anchorages in the eastern Mediterranean for a short time before commencing operations. The Leningrad was last in the Mediterranean some seven months ago when it conducted ASW operations with other naval units and aircraft. The number of Soviet ships and submarines in the Mediterranean is currently slightly higher than normal but this is due to the rotation of the submarine force that is now under way in the Mediterranean.

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BELGIUM: Gaston Eyskens, Social Christian prime minister in the last government, has again agreed to try to form a new cabinet and to end the two-month old government impasse. Eyskens failed earlier to bridge disagreements between the former coalition partners--the Socialists and Social Christians--on educational policy, particularly on the question of financing public and private (Catholic) school systems. Informal soundings undertaken by Socialist Party co-president Edmund Leburton have apparently succeeded in finding a compromise which will lay the groundwork for Eyskens' new attempt. Government formation may be completed within the month now that the skilled and popular Eyskens has resumed inter-party negotiations.

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CANADA: The country's international reserves jumped by nearly \$300 million in December to reach an all-time high of almost \$5.6 billion. Increased holdings of US dollars accounted for about 90 percent of last month's increase, as the Bank of Canada attempted to keep the value of the Canadian dollar below the US dollar. The Canadian dollar moved past the US dollar in mid-December, but following the Smithsonian agreement it has been trading about half a cent below its US counterpart. For the year, Canada's total reserves increased \$891 million, in large part as a result of US dollar holdings, which grew by some \$1 billion.

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GOLD: The free market price of gold in London has soared in the past week from \$43.63 per ounce to a record high \$45.25 at yesterday's closing. Conjecture by a few influential European financial journalists that the US might consider an increase in the price of monetary gold to \$70 or more appears to have precipitated this week's free market price jump. The volume of transactions has been lower than usual as suppliers of gold have adopted a wait-and-see position. Gold prices are likely to recede temporarily by several dollars per ounce if the US Congress passes legislation to increase the monetary price of gold to \$38.00 an ounce.

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HONDURAS: In an attempt to alleviate its serious fiscal problems, Tegucigalpa has made retroactive tax claims totaling \$12 million on two US-owned banana companies. The government is trying to negotiate a new contract with the companies raising the maximum income tax rate from 30 percent to 40 percent, the rate now paid by other Honduran firms. The government may be willing to drop its retroactive claims if the companies agree to the tax rate increase. Because of the depressed world market for bananas, the increase would have only a small direct impact on the 1972 budget deficit. It would, however, defuse complaints by the domestic private sector that foreign banana companies are not bearing a fair share of the tax burden and could remove a major obstacle to congressional passage of President Cruz's tax reform proposals.

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BURUNDI-CHINA: Burundi yesterday joined the list of countries signing trade and aid agreements with China, but the official Chinese announcement gave no details. Last October Burundi and China resumed diplomatic relations, which had been suspended in 1965. Communist assistance to Burundi has consisted of a small team of doctors and teachers from the USSR matched by slightly larger numbers of students and technical trainees, primarily in the USSR. In addition, Moscow extended a negligible amount of military aid to Burundi in 1970.

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